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Cotton and Products

Quarterly Update - September 2007

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Report Highlights:

The Post MY 2007/08 cotton production forecast is raised to 23.5 million bales on improved yield prospects due to favorable weather, a higher share of Bt cotton hybrids and the absence of major pest/disease incidences. Post continues to maintain exports forecast at 3.9 million bales.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I – SITUATION AND OUTLOOK

Table 1: Commodity, Cotton (480 lb bales), PSD

PSD Table										
Country	India									
Commodity	Cotton						(HECTARES) 1000 480 lb. Bales (PERCENT) (KG/HA)			
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		08/2005	08/2005		08/2006	08/2006		08/2007	08/2007	MM/YYYY
Area Planted	0	8873	8873	0	9166	9158	0	9500	9500	(HECTARES)
Area Harvested	8873	8873	8873	9166	9166	9158	9500	9500	9500	(HECTARES)
Beginning Stocks	8764	8764	8764	8264	8264	8264	7514	7200	7577	1000 480 lb. Bales
Production	19050	19050	19050	21800	21080	21863	23000	22250	23500	1000 480 lb. Bales
Imports	400	400	400	350	390	350	400	400	400	1000 480 lb. Bales
MY Imports from U.S.	0	118	118	0	110	0	0	150	0	1000 480 lb. Bales
Total Supply	28214	28214	28214	30414	29734	30477	30914	29850	31477	1000 480 lb. Bales
Exports	3450	3450	3450	4400	4034	4400	3600	3900	3900	1000 480 lb. Bales
Use	16500	15267	15267	18500	17100	17100	20000	18900	18900	1000 480 lb. Bales
Loss	0	1233	1233	0	1400	1400	0	1500	1500	1000 480 lb. Bales
Total Dom. Cons.	16500	16500	16500	18500	18500	18500	20000	20400	20400	1000 480 lb. Bales
Ending Stocks	8264	8264	8264	7514	7200	7577	7314	5550	7177	1000 480 lb. Bales
Total Distribution	28214	28214	28214	30414	29734	30477	30914	29850	31477	1000 480 lb. Bales
Stock to Use %	41.42356	44.15237	44.15237	32.81223	34.06833	35.24186	30.99153	24.34211	31.47807	(PERCENT)
Yield	467	467	467	518	501	520	527	510	539	(KG/HA)

Note: Production figures in the table include 937,000 bales of loose cotton

Production

The Post MY 2007/08 cotton production forecast is raised to 23.5 million bales (5.1 million tons) on improved yield prospects due to overall favorable weather conditions, the absence of major pest or disease outbreaks in most growing areas, and an increased share of Bt

cotton hybrids vis-à-vis conventional varieties. However, weather during the month of September will be crucial in determining the final crop size. Cotton planting is almost over, except for some pockets in southern India. Based on the provisional estimates from state agricultural departments and field sources, MY 2007/08 area is expected to reach 9.5 million hectares. Current industry production estimates for the upcoming crop are optimistically ranging from 23.8 to 25.0 million bales (30.5 to 32.0 million Indian bales of 170 kg).

India is heading towards an unprecedented record crop for the fifth consecutive year. Most cotton growing areas received adequate and well-distributed monsoon rains from June through August establishing excellent planting and growing conditions for the crop. Planting in northern India (Punjab/Haryana/Rajasthan) was delayed by 1-2 weeks due to delayed harvesting of wheat, but was completed by the second week of June. Cotton planting in central India (Gujarat/Maharashtra/Madhya Pradesh) was concluded by the third week of August under adequate moisture conditions. Planting in some parts of south India (Karnataka/Tamil Nadu/Andhra Pradesh)¹ is expected to be over by first week of September. Initial reports indicate a shift in area towards cotton in most states except Haryana and Karnataka (see Table 2). There was a move from cotton area to guar gum in Haryana and from cotton to maize in Karnataka due to relatively high prices of these crops vis-à-vis cotton during the last season.

The crop is progressing well under adequate moisture conditions in most cotton growing areas. Market sources report a significant increase in area under Bt cotton compared to last year in most states. Although Bt cotton sowing figures are not yet available, the Bt cotton share is expected to increase to 70 percent of total cotton area from 60 percent last year². The Bt cotton hybrids are mostly replacing lower yielding traditional cotton varieties. Although there are some reports of minor pest incidences (mealy bugs and white flies) in some pockets of north India, there are no reports of any major damage to the crop, and the cotton crop in central and southern India is free of any major pest and diseases. These factors together support higher yield expectations for the MY 2007/08 crop, but heavy rains during September could hamper crop yield and quality, particularly in north India and Gujarat.

Production Revised Higher for MY 2006/07

Post's MY 2006/07 production estimate has been revised marginally higher to 21.9 million bales based on the estimates by the Cotton Advisory Board on August 9, 2007. The MY 2007/08 cotton area estimate has been marginally lowered to 9.16 million hectares based on the provisional area figures compiled by the Ministry of Agriculture.

Prices Remain Stable Despite Bumper Crop Expectations

Despite the expectation of a large upcoming crop, domestic cotton prices in August remained firm (see table 3) due to an expected delay in the new crop and strong international prices. Current prices of most staple varieties are ranging from 60 to 70 cents/lbs. Prices are expected to remain stable for next few weeks, but likely to ease starting in early October as arrivals gain pace in North India and Gujarat. However, international prices will largely guide domestic price movements during the season due to the expected strong export demand for Indian cotton.

¹ A small summer cotton crop in south will be planted in November/December.

² Area under Bt cotton in MY 2007/08 estimated at 6.8 million hectares (5.0 under approved Bt hybrids and 1.8 under illegal Bt hybrids, compared to MY 2006/07 Bt acreage of 5.5 million hectares (3.5 under approved Bt hybrids and 2.0 under unapproved Bt hybrids).

MY Trade Estimates Unchanged

Post continues to estimate MY 2007/08 exports at 3.9 million bales and imports at 400,000 bales based on the improved supply situation and strong international cotton prices. Market sources report that increasing acceptability of Indian Shankar-6 cotton in destination countries like China will support cotton exports during MY 2007/08. The local cotton trade is very bullish about export prospects, with export estimates ranging between 4.7 to 5.5 million bales. However, continued appreciation in value of Indian rupee vis-à-vis U.S. dollar will dampen Indian cotton export potential. India will continue to import most of its extra long staple cotton (ELS) requirement due to the declining domestic ELS crop.

SECTION II – STATISTICAL TABLES

Table 2: Area, Production & Yield of Cotton in Major States

(Area in 000 hectares, Production in 000 bales of 480 lb., Yield in Kg/Hectare)

				Final	Final	Final	Revised	Estimated
STATE		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Maharashtra	Area	2980	2800	2766	2840	2889	3124	3150
	Production	2674	2030	2420	4060	2811	4060	4529
	Yield	195	158	191	311	212	283	313
Gujarat	Area	1687	1634	1647	1906	2077	2390	2500
	Production	2538	2381	3904	5700	6949	7886	8589
	Yield	328	317	516	651	728	718	748
Madhya Pradesh	Area	623	545	591	576	600	630	650
	Production	1562	1405	1534	1249	1405	1405	1405
	Yield	546	561	565	472	510	486	471
Punjab	Area	600	449	452	509	557	588	648
	Production	722	586	808	1288	1562	2030	2186
	Yield	262	284	389	551	610	752	735
Haryana	Area	610	519	526	621	583	533	480
	Production	429	683	898	1210	1015	1249	1171
	Yield	153	287	372	424	379	510	531
Rajasthan	Area	347	386	344	438	472	350	400
	Production	547	390	714	859	859	625	781
	Yield	343	220	452	427	396	389	425
Andhra Pradesh	Area	1002	803	837	1178	1037	962	1050
	Production	2089	1542	2139	2538	2499	2733	2967
	Yield	454	418	557	469	525	619	615
Karnataka	Area	591	393	313	521	450	370	375
	Production	547	390	328	625	508	468	468
	Yield	201	216	228	261	246	276	272
Tamil Nadu	Area	200	85	103	129	136	133	150
	Production	390	234	293	429	429	390	390
	Yield	425	600	619	725	688	639	567
Others	Area	90	53	51	68	72	78	100
	Production	59	78	78	78	78	78	78
	Yield	142	321	333	250	236	218	170
Loose	Production	781	898	859	937	937	937	937
All- India	Area	8730	7667	7630	8786	8873	9158	9503
	Production	12337	10619	13976	18973	19051	21862	23502
	Yield	308	302	399	470	467	520	538

Table 3: Month-end Prices of Popular Varieties
(Prices in Rupees per metric tons)

Year	Bengal Deshi (below 22 mm)	SG J- 34 (25 mm)	H- 4 (28 mm)	Shankar- 6 (29 mm)	MCU- 5 (33 mm)	DCH- 32 (35 mm)
2005/06						
Aug	35150	43030	43870	46680	56240	89430
Sep	35150	41620	44430	50620	53990	88580
Oct	36840	41900	46400	48650	53990	88580
Nov	40490	42740	47520	48930	57930	109670
Dec	39370	44150	47810	50620	63270	126540
Jan	37400	42460	47520	51180	62990	122330
Feb	36560	42740	46680	51180	62990	112490
Mar	35430	42460	46960	51180	61860	116700
Apr	39090	46400	47800	51740	61860	118100
May	37400	44990	45270	50330	58210	118100
Jun	39090	47240	47240	51460	57360	118100
July	41620	47800	50620	53710	57650	112480
Average	37799	43961	46843	50523	59028	110092
2006/07						
Aug	41620	48930	52020	57360	60180	111070
Sep	41900	45830	50050	53150	59610	108260
Oct	41340	44990	48930	51740	58490	97010
Nov	40770	43310	48090	50330	73110	90000
Dec	39930	43590	47800	50330	73110	90000
Jan	37680	43300	48650	50620	58490	90000
Feb	41060	48090	51740	52870	61300	92800
Mar	41060	51740	53430	54830	62430	92800
Apr	41340	50330	51740	52300	61860	89980
May	42180	52300	52300	54270	61860	89980
June	42180	52580	52870	54270	61860	88580
July	44990	54830	56240	57360	63270	91390
Average	41338	48318	51155	53286	62964	94323
2007/08						
Aug	44430	53990	55680	57650	63270	89980

Source: East India Cotton Association